

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William M. "Bill" Deskins, Pike County Judge/Executive
Honorable Charles "Fuzzy" Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Pike County, Kentucky, for the year ended December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Pike County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
PIKE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**

**ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PIKE COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

Ross and Company, PLLC has completed the Pike County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the County Sheriff and the revenues, expenditures, and fund balance of the County Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of fees collected are deposited in a County Sheriff's operating fund and used for operating expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

Fee account balances decreased by \$315,782 from the prior calendar year, resulting in a cash deficit of \$315,782 as of December 31, 2003. Revenues decreased by \$586,893 from the prior year and disbursements decreased by \$256,918.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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The Honorable William M. "Bill" Deskins, Pike County Judge/Executive
The Honorable Charles "Fuzzy" Keese, Pike County Sheriff
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Sheriff of Pike County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2003. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the County Sheriff and the revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

The Honorable William M. "Bill" Deskins, Pike County Judge/Executive
The Honorable Charles "Fuzzy" Keese, Pike County Sheriff
Members of the Pike County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Pike County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross and Company", written in a cursive, flowing style.

Ross and Company, PLLC

Audit fieldwork completed -
September 9, 2004

PIKE COUNTY
CHARLES "FUZZY" KEESEE, COUNTY SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Federal Payments		\$	45,781
State Grants			47,446
State Fees for Services			95,347
Circuit Court Clerk			
Arrest Fees	\$	1,440	
Sheriff's Security Service		39,951	41,391
Fiscal Court			97,739
County Clerk			25,724
Commission on Taxes			454,082
Fees Collected for Services:			
Auto Inspections	\$	10,781	
Accident and Police Reports		131	
Serving Papers		46,214	
Executions		4,110	
Carying Concealed Deadly Weapon Permits		9,300	
Sheriff's Advertising Fees		2,695	
Sheriff's 10% Add-on Fee		68,780	142,011
Other Revenues:			
Transporting Mental Patients	\$	17,891	
Reimbursements - Payroll		12,473	
Jury Reimbursement		1,103	
Refunds		17,345	
Travel Reimbursement		35	
DARE		1,150	
Miscellaneous		10	50,007
Interest Earned			570
Total Revenues		\$	<u>1,000,098</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 CHARLES "FUZZY" KEESEE, COUNTY SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Carrying Concealed Deadly Weapon Permits		\$	6,170
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Other Expenditures:

Executions	\$	3,970	
Jury Expense		754	
Payroll Reimbursements		12,473	
Miscellaneous		17	17,214
			<hr/>

Total Allowable Expenditures		\$	23,384
			<hr/>

Net Revenue		\$	976,714
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Payments to State Treasurer:

75% Operating Fund	\$	823,326	
25% County Fund		153,388	976,714
			<hr/>

Balance Due at Completion of Audit		\$	0
			<hr/> <hr/>

PIKE COUNTY
 CHARLES "FUZZY" KEESEE, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2003

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2003	\$	\$	\$
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	823,326		823,326
Fees Paid to State - County Funds (25%)		153,388	153,388
Total Funds Available	\$ 823,326	\$ 153,388	\$ 976,714
<u>Expenditures</u>			
Personal Services-			
Sheriff's Statutory Maximum	\$ 81,968	\$	\$ 81,968
Deputies' Salaries	515,538		515,538
Part-Time Salaries	38,444		38,444
Overtime Gross	45,739		45,739
Employee Benefits-			
Employer's Share Social Security	51,034		51,034
Employer's Share Retirement	44,780		44,780
Employer's Paid Health Insurance	151,277		151,277
Other Payroll Disbursements			
Operating Expenses	195,385		195,385
Capital Outlay	14,943		14,943
Payment to Fiscal Court		153,388	153,388
Total Expenditures	\$ 1,139,108	\$ 153,388	\$ 1,292,496
Fund Balance - December 31, 2003	\$ (315,782)	\$ 0	\$ (315,782)

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
CHARLES "FUZZY" KEESEE, COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

PIKE COUNTY
CHARLES "FUZZY" KEESEE, COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bonds which named the Sheriff as beneficiary/obligee on the bonds.

Note 4. Forfeiture Fund

The Pike County Sheriff maintains an official bank account for monies obtained from seizures and sale of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The beginning balance as of January 1, 2003 was \$7,858. Expenditures were \$2. The balance of the drug forfeiture fund as of December 31, 2003 was \$7,856.

Note 5. Undercover Drug Fund

The Pike County Sheriff maintained an official bank account for the purpose of combating illegal drugs. The beginning balance as of January 1, 2003 was \$6,095. There was no activity in this fund. The balance of the undercover drug fund as of December 31, 2003 was \$6,095.

PIKE COUNTY
CHARLES "FUZZY" KEESEE, COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Note 6. Reimbursed Expenses

The amount deposited to the County Sheriff's Operating Fund (75%) with the State Treasurer included reimbursed expenses. These reimbursed expenses include payments from the state and county in addition to miscellaneous revenues. The following were reimbursed expenses, which were 100% credited to the Sheriff's Operating Fund.

<u>Category</u>	<u>Amount</u>
100% Fee	\$ 363,163
Payroll Reimbursements	<u>12,473</u>
Total	<u>\$ 375,636</u>

COMMENT AND RECOMMENDATION

PIKE COUNTY
CHARLES "FUZZY" KEESEE, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2003

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- The Sheriff should periodically, and on a surprise basis, compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this by initialing the bank deposit, daily receipt, and receipts ledger.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should compare the quarterly financial report to receipts and disbursement ledgers for accuracy. Any difference should be reconciled. The Sheriff should document this by initialing the quarterly financial report.
- The Sheriff or someone independent of the Sheriff's Office should prepare the bank reconciliation. The Sheriff should document this by initialing the bank reconciliation.

Sheriff Fuzzy Keesee's Response:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This has not been corrected and is repeated in the current year report.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
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Facsimile (502) 499-9132

The Honorable William M. "Bill" Deskins, Pike County Judge/Executive
The Honorable Charles "Fuzzy" Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements – regulatory basis of the Pike County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated September 9, 2004. This was a special report on the County Sheriff's financial statements prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pike County Sheriff's financial statements as of December 31, 2003, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

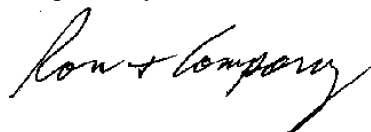
- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross and Company".

Ross and Company, PLLC

Audit fieldwork completed -
September 9, 2004

